

Message Text

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ACTION EB-07

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CIAE-00 INR-07 NSAE-00 L-03 OMB-01 ARA-10 AF-06 EA-10

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R 191230Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2131

UNCLAS SECTION 01 OF 02 LONDON 09391

FOR PLACKE, EB/OPF; ALSO PASS AGRICULTURE, ATTN.

RICHARD BELL

E.O. 11652: N/A

TAGS: EAGR, UK

SUBJECT: WHEAT: IWC DRAFT BUDGET

REF: A) SECSTATE 136381; B) LONDON 7580; C) LONDON 9263

1. FOLLOWING COMMENTS ARE KEYED TO QUESTIONS RAISED IN REFTEL CONCERNING THE PROPOSED BUDGET OF THE INTERNATIONAL WHEAT COUNCIL (IWC) FOR THE 1975/76 CROP YEAR:

A. RENT. DEPARTMENT IS CORRECT IN ASSUMING ENLARGEMENT OF AREA USED BY IWC WOULD BE ADDITIONAL ELEMENT IN INCREASED RENTAL COST. IWC PRESENTLY OCCUPIES 2,590 SQUARE FEET OF FLOOR SPACE, WHICH IT HOPES TO INCREASE TO 2,970 SQUARE FEET FOR TWO ADDITIONAL OFFICES AND ONE OFFICE TO BE SHARED WITH THE INTERNATIONAL SUGAR OFFICE (ISO). ASSUMING NEW LEASE WILL BE AT POUNDS L0 PER SQ.

FT. (NO MEANS CERTAIN AT THIS POINT), THEORETICAL DIFFERENCE BETWEEN PRESENT AND PROPOSED USAGE WOULD AMOUNT TO POUNDS 3,800. WHILE WE HAVE NOT MADE DETAILED SURVEY OF SPACE NEEDS, EMBOFFS ARE QUITE FAMILIAR WITH PRESENT IWC LAYOUT AND OFFICE ASSIGNMENTS. THERE IS CONSIDERABLE CROWDING--E.G., THREE PROFESSIONALS IN ONE ROOM, FIVE TRANSLATORS IN ANOTHER. EXECUTIVE SECRETARY'S OFFICE IS

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SMALL, WITH ROOM FOR NOT MORE THAN THREE VISITORS TO BE

RECEIVED COMFORTABLY AT A TIME. IN OUR OPINION, PRESENT SITUATION IS SUB-STANDARD AND EFFICIENCY WOULD BE IMPROVED BY EXPANSION.

B. BRITISH INFLATION. AS NOTED IN REF (B) AN INFLATION RATE OF 25 PERCENT (NOT 30 PERCENT) WAS ASSUMED, WHICH COULD PROVE CONSERVATIVE. THE INTERNATIONAL COFFEE ORGANIZATION (ICO) PROJECTING FROM A DECEMBER 1974-APRIL 1975 DATA BASE IS USING 31.2 PERCENT. INTERNATIONAL TIN COUNCIL (ITC), WITH BUDGET DRAFTED IN JANUARY USED UNREALISTICALLY LOW 15 PERCENT. WE THINK 25 PERCENT IS REASONABLE. A FACTOR WHICH COULD INCREASE COSTS EVEN MORE IS DETERIORATION OF THE POUND STERLING EVIDENT IN LAST WEEK OR SO. IF THIS CONTINUES, FOREIGN CURRENCY COSTS, E.G., TABLE V, ITEM C.9 FOR A NEW GENEVA CONFERENCE, SOME TRAVEL EXPENSES (A.6) AND INTERPRETERS FEES, INCREASE.

C. RESERVE FUND. METHOD FOR BUILDING UP RESERVE SO FAR USED HAS BEEN BY SHIFTING ANY SURPLUS FROM LINE-ITEMS TO RESERVE FUND. EXECUTIVE SECRETARY PAROTTE AGREES SPECIAL LINE-ITEM FOR THIS PURPOSE WOULD BE DESIRABLE AND COULD BE ADDED AS ITEM D. 10. SURPLUSES, IF ANY, WOULD STILL BE ADDED TO FUND. ANOTHER QUESTION IS WHAT IS PRUDENT LEVEL FOR THE RESERVE FUND. IN ICO, PRINCIPLE SEEMS TO BE ACCEPTED THAT FUND SHOULD BE SUFFICIENTLY LARGE TO (A) COVER UNFORESEEN (SUCH AS INFLATION NOT BUDGETED FOR), (B) SHORT-TERM OPERATING NEEDS, AND (C) TO COVER LIQUIDATION CONTINGENCY. RESERVE IS CURRENTLY SLIGHTLY ABOVE ONE-HALF ANNUAL BUDGET. IWC THINKING HAS TAKEN INTO ACCOUNT (A) AND (B) BUT NOT (C). WE THINK PRUDENCE DICTATES THAT LIQUIDATION CONTINGENCY SHOULD ALSO BE COVERED SINCE, LIKE OTHER COMMODITY ORGANIZATIONS, IWC'S BEING IS ESSENTIALLY SHORT-TERM AT SUFFERANCE OF MEMBERS. LIQUIDATION WOULD INVOLVE LEGAL OBLIGATIONS, PARTICULARLY REGARDING STAFF. IWC SECRETARIAT ESTIMATES LIQUIDATION COSTS AT POUNDS 90,000.

D. ARREARAGES. SITUATION HAS IMPROVED CONSIDERABLY OVER THAT DESCRIBED IN REF (A) AND SEEMS LIKELY IMPROVE FURTHER PRIOR TO COUNCIL MEETING LATER THIS MONTH. BALANCE IS NOW POUNDS 19,950.01, WITH EGYPT, BOLIVIA AND GREECE HAVING PAID IN FULL; VENEZUELA HAS PAID ALL BUT POUNDS

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790.78. COSTA RICA HAS MADE SMALL PAYMENT (POUNDS 46.63) ON OLD ARREARAGES. ARGENTINA AND EL SALVADOR HAVE BOTH PROMISED PAYMENT, WITH LATTER STATING IN LETTER TO IWC THAT INSTRUCTIONS HAVE BEEN GIVEN TO BANK TO PAY ALL ARREARAGES. MAY 28 EXECUTIVE COMMITTEE LINKED ARREARAGES WITH RESERVES LEVEL BY EXPRESSING "VERY GRAVE CONCERN" RE RESERVES AND DIRECTING STEPS BE TAKEN TO OBTAIN SPEEDY PAYMENT OF ARREARAGES.

2. COMMENT. WE THINK RESERVES LEVEL IS A CRITICAL PROBLEM WHICH DESERVES CAREFUL ATTENTION AND A WELL THOUGHT

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OUT US POSITION. IN LINE WITH DISCUSSION IN PARA D, ABOVE, WE RECOMMEND THAT US SUPPORT A LEVEL HIGH ENOUGH TO COVER LIQUIDATION CONTINGENCY. THIS SUGGESTS PROGRAM FOR RESERVES BUILDING IMPLICIT IN ALTERNATIVE FORMULATION OF ASSESSMENTS SET FORTH IN TABLE VI OF BUDGET PROPOSAL DOCUMENT.

3. AS DISTRESSING AS THE PROPOSED SPENDING INCREASE SEEMS, THE POINT IS THAT IT IS VERY DIFFICULT TO SEE WAYS TO EFFECT ECONOMIES. FOR EXAMPLE, DURING THE MAY 28 EXECUTIVE COMMITTEE MEETING, AUSTRALIA, BACKED NOTABLY BY THE US, EGYPT AND THE USSR, EXPRESSED DEEP CONCERN AND SUGGESTED THAT ALTERNATE, LESS EXPENSIVE ACCOMMODATIONS MIGHT BE SOUGHT. ON CLOSER EXAMINATION, HOWEVER, THIS SUGGESTION RAISED THE SPECTRE OF EVEN MORE SHORT-TERM EXPENSE THAN A NEW LEASE AT HAYMARKET HOUSE BECAUSE OF MOVING COSTS, CAPITAL INVESTMENT IN CONFERENCE FACILITIES, ET CETERA. AS NOTED IN REF (B), THERE ARE SEVERAL "SOFT" ESTIMATES WHERE LINE-ITEMS HAVE NOT BEEN TIGHTLY COSTED.

WE CONTINUE TO URGE THAT EVERY EFFORT BE MADE TO REFINE ESTIMATES BEFORE THE COUNCIL MEETING, BUT ARE NOT SANGUINE THAT MUCH CAN BE DONE. THIS IS SO SINCE THE SOFT AREAS PARTICULARLY INVOLVE RENT (ITEM A.2.) AND OFFICE REARRANGEMENT PLANS (B.8.). LEASE NEGOTIATIONS WILL NOT BE UNCLASSIFIED

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CONCLUDED UNTIL ABOUT NOVEMBER AND RENOVATION PLANS, WHICH MUST TO SOME EXTENT INVOLVE BOTH THE ISO AND THE ITC ARE VERY PRELIMINARY AT THIS STAGE.

4. FINALLY, AN ANALYSIS OF THE BUDGET LEADS TO CONCLUSIONS THAT THE FACTORS MAKING UP THE INCREASE ARE HIGH RATE OF UK INFLATION, THE PROSPECTIVE MASSIVE RENT INCREASE, AND ONE-TIME-ONLY EXPENSES AS REFLECTED IN ITEMS B AND C OF TABLE V. IF RENT IS PROJECTED AT THE PRESENT RATE (THE INCREASE, ACTUALLY, SHOULD BE VIEWED AS "DEFERRED INFLATION") AND ITEMS B AND C ARE LEFT OUTSIDE CALCULATIONS, THEN THE PROPOSED FIGURE WOULD BE ABOUT POUNDS 252.0 THOUSAND, 25 PERCENT ABOVE THE ESTIMATED 1974/75 ACTUAL EXPENDITURE--OR PRECISELY THE ASSUMED INFLATION RATE. THIS EXPLANATION MIGHT BE INTELLECTUALLY SATISFYING, BUT IT IS HARDLY HELPFUL IN SUGGESTING WHERE SAVINGS MIGHT BE MADE--THE RENT STILL MUST BE PAID, PROBABLY ONLY MARGINAL SAVINGS COULD BE MADE IN ITEM B AT BEST, AND C, IF ANYTHING, IS LIKELY TO PROVE CONSERVATIVE.

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